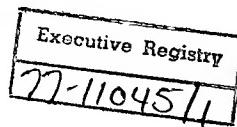


The Director
Central Intelligence Agency



Washington, D.C. 20505



28 DEC 1977

(FYI)

MEMORANDUM FOR: The Honorable Bob S. Bergland
The Secretary of Agriculture

SUBJECT : China's Grain Imports and
Agricultural Policy

Attached is the short paper describing China's agricultural policy and its effect on grain imports that I promised at our meeting of 12 December. I hope it will help you in evaluating China as a potential market for grain imports.

/s/ Stansfield Turner

STANSFIELD TURNER

Attachment:
As stated

China: Grain Imports and Agricultural Policy

Agricultural policy in China is aimed toward achieving self-sufficiency in grain production. Since the early 1960s, however, China has regularly purchased moderate amounts of foreign grain, mostly under medium-term contracts with Australia and Canada. In the last seven years, imports have averaged 5 million tons per year, ranging from 2 million tons in 1976 to 7.6 million tons in 1973. (See Figure 1) It is unlikely that the average level will increase as the result of a policy decision favoring higher imports.

Agricultural Policy

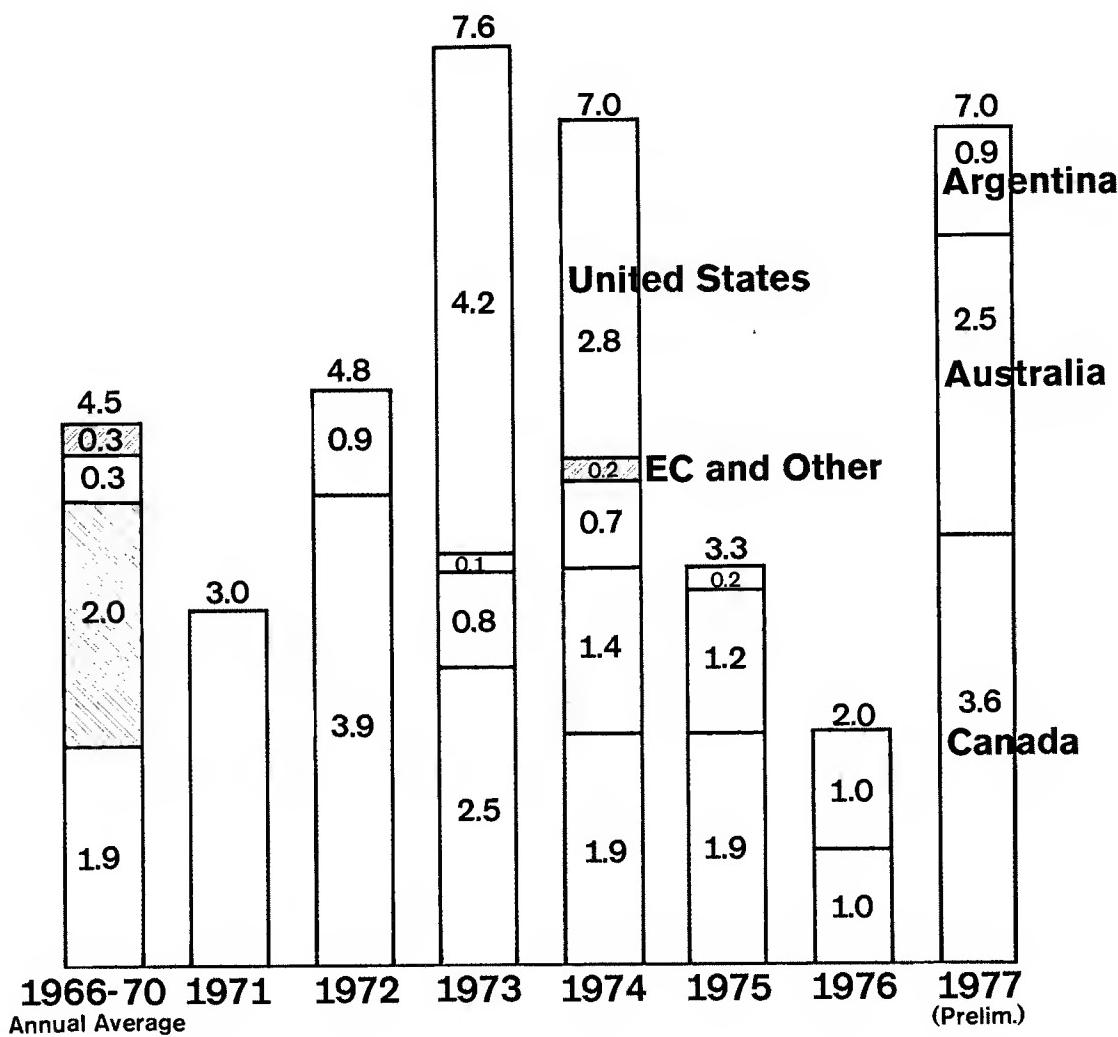
Agriculture has had the highest priority in Chinese economic development plans since 1962. The failure of the Great Leap Forward, which was greatly aggravated by three years of bad weather (1959-1961), made clear to the regime that the agricultural production base had to be strengthened. During the 1950s, Peking had not pushed the development and dissemination of new agricultural technology or the large-scale production of industrial inputs to agriculture.

The Tenth Plenum of the CCP in September 1962 marked a break with past development policy. A new "agriculture first" policy allocated a larger share of state investment to agriculture, and industry was restructured to produce

Figure 1

China: Imports of Grain, by Source

Million Tons



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more farm inputs. Chemical fertilizer imports were stepped up and grain imports were put on a planned rather than an emergency basis. The goal of "self-sufficiency" announced at that time meant the agricultural base should be made strong enough to carry the country through years of below average harvests.

The current campaign, "Learn from Tachai," continues the recent emphasis on agricultural self-sufficiency at the local level and holds up a model for all to emulate. (Tachai is a production brigade in a poor area of North China which has achieved high crop yields.) At the same time China's present leaders are pushing programs for developing a large industrial base that can provide modern farm inputs.

Self-Sufficiency

The idea of self-sufficiency is very strong in China and runs through all levels of administration, from the national to the local. It applies to almost every aspect of the economy, but most forcefully to food. The reasons for the heavy emphasis on self-sufficiency are complex and have deep historical roots. The aim of building an economically independent nation has strong and consistent political appeal in China.

There are fundamental economic reasons for the Chinese policy of self-sufficiency. China is a large continental country, like the US, India, and the Soviet Union, with vast domestic resources. But in addition, China minimizes its dependence on imports. Imports are equivalent to only about 2% of Chinese GNP compared with 4% in the USSR, 6% in India and 7% in the U.S.

Foreign Trade Supports Agriculture

China has been using a large portion of its limited foreign exchange supply to excellent advantage in trying to solve its food problem. Imports of grain, agricultural inputs, and agriculture-related industrial plants in recent years have made up 20-25% of total Chinese imports. Foreign trade has supported agricultural policy in three major ways.

First, grain has been imported to help fulfill the immediate needs of large urban areas in the north. Wheat is the main staple grain in northern Chinese diets, and foreign wheat deliveries to the north have eased the burden of taxes and grain procurement on the peasants in this traditionally grain deficient area. Taxes have been kept relatively low and stable in recent years to help increase the incentives for peasants to produce more grain and to earn more investment funds for agriculture. Importing grain into the major coastal cities also provides some relief to the North's hard-pressed transport system.

China helps pay for part of the wheat imports by exporting some higher-valued rice from the south, but the amount exported since 1973 has been declining. Though rice prices are generally 2-3 times those of wheat, some of the sales are in the form of barter agreements and do not earn hard currency. The tabulation gives rice exports (in thousand metric tons) for the 1970s.

1970 -	988
1971 -	924
1972 -	899
1973 -	2,142
1974 -	1,983
1975 -	1,440
1976* -	1,000
1977 -	600

The second way that trade supports agriculture is in the purchases of modern agricultural inputs such as fertilizer, pesticides, and plastics for seed bed covering and irrigation pipe. Fertilizer imports have represented about 20% of the total fertilizer supply in the past several years.

The third type of trade in support of agriculture is the purchase of industrial plants and technology which produce import substitutes for the relatively expensive imported agricultural inputs. During the mid-1960s foreign fertilizer plants were bought mainly to serve as models for China's own domestic machinery industry. In 1972, the Chinese decided that it would be quicker and cheaper to import modern fertilizer plants than to develop them independently.

* Preliminary estimate.

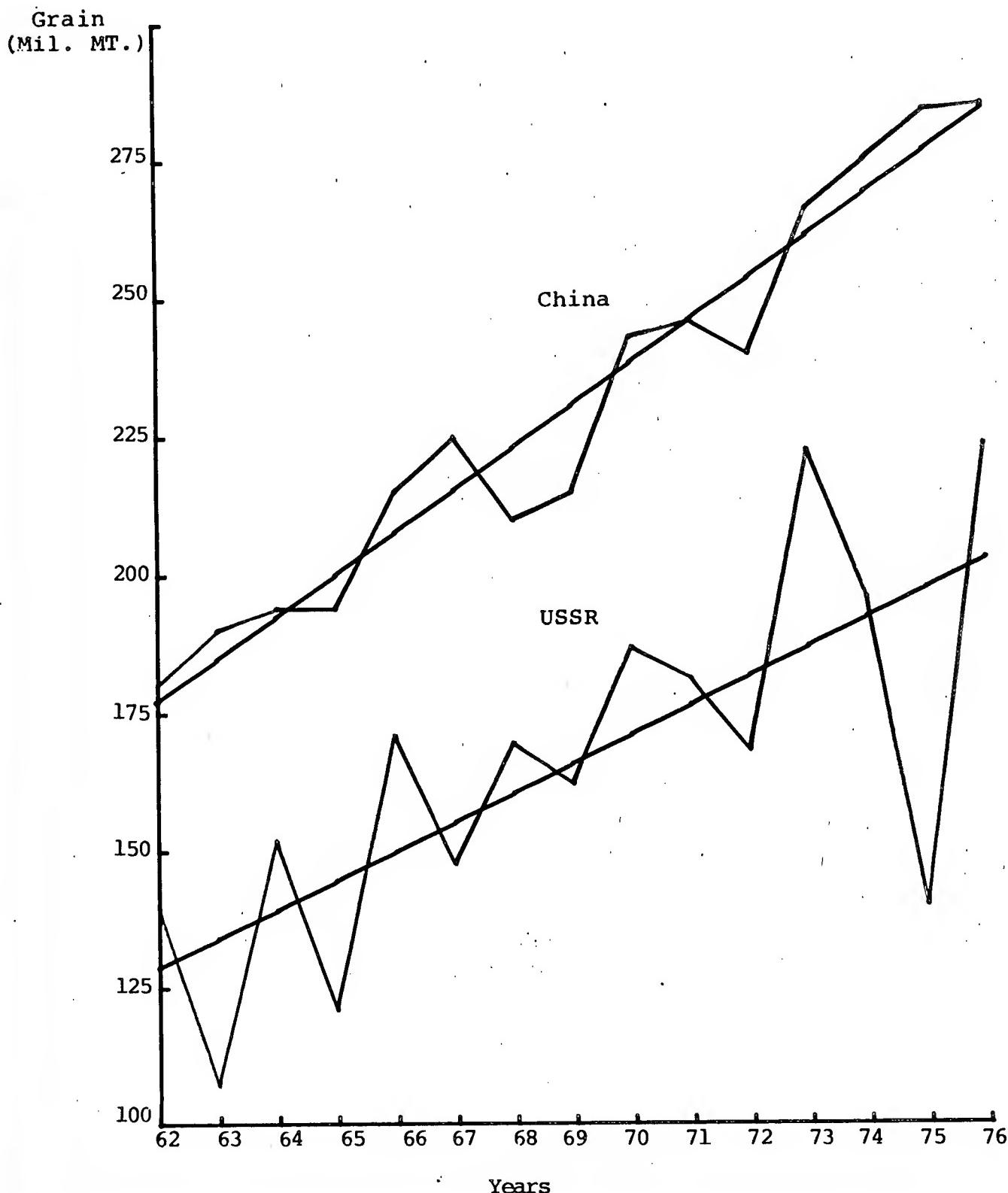
Domestic output of high-quality fertilizers and plastics was growing too slowly for the needs of agriculture. The need for fertilizer imports had not decreased, and with the energy crisis fertilizer prices were rising faster than the price of machinery. Also, a domestic supply of petrochemical feedstock had become available with the growth of China's petroleum industry.

Grain Imports and the Stability of Agricultural Growth

Since 1962, when the "agriculture first" policy was instituted, grain output has declined only in two years. As a result, grain imports have not fluctuated widely. [During the 1970s, for example, Chinese imports have ranged from 2.0 to 7.6 million tons while Soviet grain imports ranged from 2.9 to 24.5 million tons.] Perspective on the relative stability of Chinese agricultural growth can be gained in comparing production trends for China and the USSR. (See Figure 2)

Unlike the USSR, where agriculture is dominated by one crop and one weather system, China's crops and climate are diverse. Natural divisions of climate and topography separate China's main agricultural area, the eastern half of the country, into two broad segments--north and south China--with the break occurring at roughly the Yangtze River. (See Map) The river separates the high-precipitation, semi-tropical south from the drier north, where precipitation is more seasonal. Agriculture in the south is based upon paddy rice, while in the north the base is dry land crops, especially coarse grains and wheat.

Figure 2
China - USSR Grain Output Time Trends



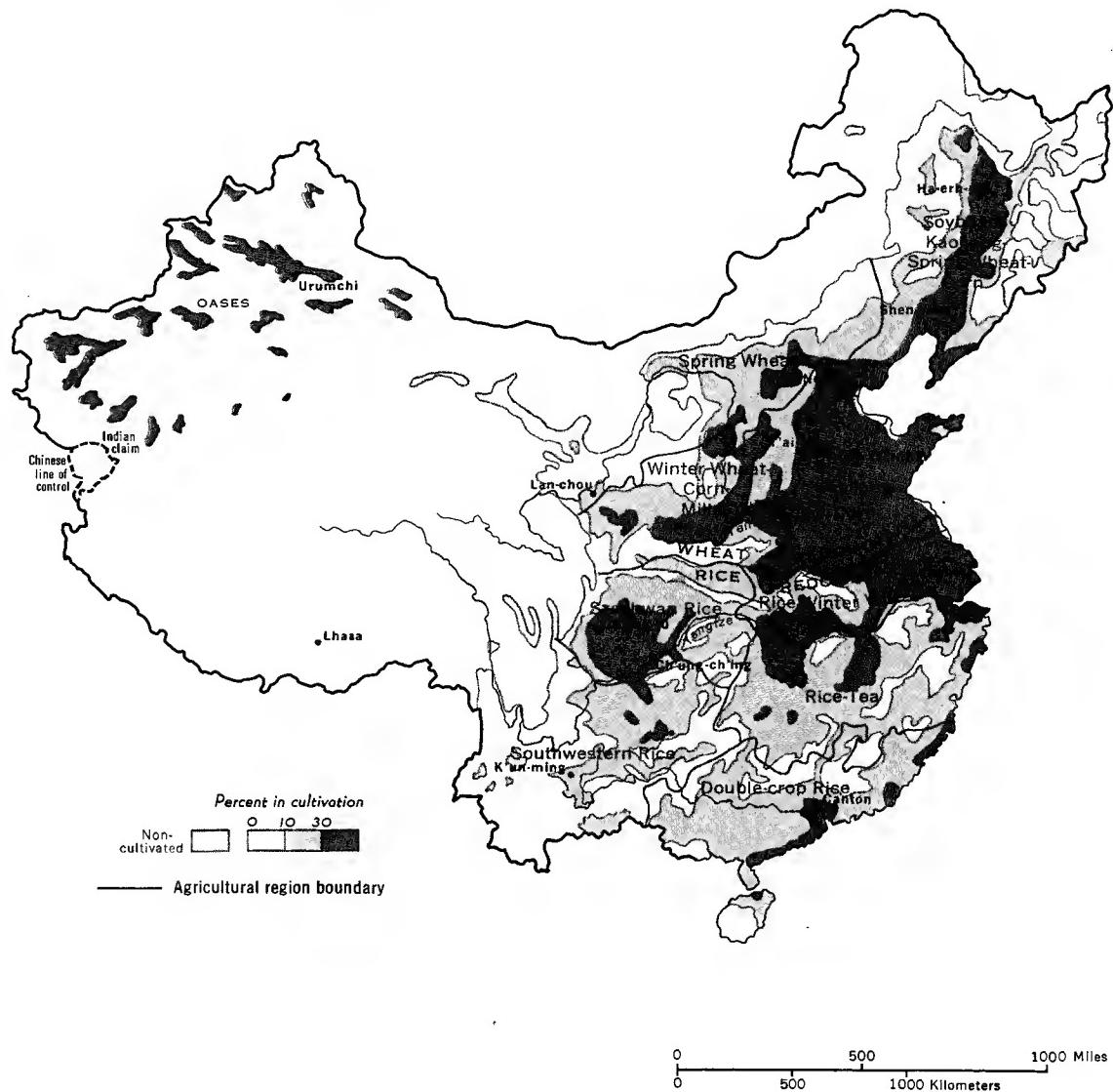
China's agriculture has been characterized historically by intensive inputs of labor on a limited supply of land. Steady expansion of multiple cropping, exacting crop rotations, improved irrigation and heavier use of organic fertilizer have enabled the Chinese over centuries to extract ever higher annual yields per unit of cultivated land. The diversity and intensity of Chinese agriculture has been the major factor in the relative stability of output. Seldom are both the spring and the autumn harvests poor; seldom is there a poor harvest in the north as well as in the south.

Prospects

Grain production between 1952 and 1976 grew at the average annual rate of 2.3 percent. Growth of population over the same period has averaged 2.1 percent per year. Since the late 1960s, the population growth rate has been falling and is presently about 1.5 percent per year. The grain supply must increase somewhat faster than the population because the proportion of adults, who consume the most food, is growing and because the demand for grain for livestock feed is increasing.

China cannot rely on imports to feed the increase in population -- the requirements to feed 15 million additional people each year are simply too large. China might increase grain imports to buy time needed for domestic agricultural

China: Agricultural Regions



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programs to succeed. We believe these programs are at least close to schedule so that grain production will probably stay ahead of population growth, except in occasional poor years.

Future increases in grain output will come mainly from increasing individual crop yields per unit of land because the amount of arable land is practically fixed. Increases are unlikely to come from expanded acreage although there is some possibility for expanding multiple cropping. Chinese rice and wheat yields, although good by developing countries' standards, still have room for improvement. For example, China's national average rice yield is 3.5 tons per hectare, while Japan's is over six tons; and China's national average wheat yield is around 1.6 tons per hectare, while France is producing over 4.5 tons.

It is early yet, but a push for increased crop yields in the 1980s appears to be taking shape. As the political scene has calmed down, efforts to expand irrigation and mechanization have increased. A program to expand areas of "high and stable yields" emphasizes improving the quality of the land by terracing and leveling. Modern high-yield seed varieties are being developed and extended. In addition, more attention is being paid to the development of pest control measures.

The last round of imported petrochemical plants (ordered in 1973-74) began producing in late 1976, with chemical fertilizer production of all types in 1977 reportedly up 31.9 percent over 1975. (Fertilizer production probably fell slightly in 1976 because of political disruption and transportation bottlenecks.). Total annual output from the 13 foreign urea plants by 1980 will be 3.5 million tons of nutrient, which will double the nitrogen fertilizer capacity of 1975.

The Chinese are now on the verge of entering another round of foreign plant purchases, which includes petrochemical as well as fertilizer plants. If the level of purchases is anything close to the 1973-74 level, it will be difficult to sustain a rise in grain purchases during the next few years for lack of foreign exchange.

The Chinese will continue to import as much grain and fertilizer as is needed to maintain the marginal but adequate diets of their people. At the same time, a long-range solution demands that China develop the capability of producing farm inputs itself, which will require spending some foreign exchange for plant and equipment.

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2	Director, Central Intelligence Agency		
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Remarks:

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1 - 2:

Attached is the paper on China's agricultural policy that you promised to send to Secretary Bergland at your meeting with him on 12 December.

FOLD HERE TO RETURN TO SENDER

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DATE

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23 DEC 1977

MEMORANDUM FOR: Director, Central Intelligence Agency
THROUGH : Director, National Foreign Assessment Center
SUBJECT : China's Grain Imports and Agricultural Policy

Attached is a short paper describing China's agricultural policy and its effect on grain imports to send to Secretary Bergland. You told the Secretary you would send the paper at your meeting with him on 12 December.

MAURICE C. ERNST
Director
Economic Research

Attachment:
As stated

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Routing Slip

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Executive Secretary

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Washington, D.C. 20505

28 DEC 1977

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since 1962. Figure
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Central Intelligence Agency

E... Harry
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Washington, D.C. 20505

28 DEC 1977

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